Conference call transcript

12 May 2021

INVESTOR CALL ON NASPERS PROSUS SHARE EXCHANGE OFFER

Operator
Good day ladies and gentlemen and welcome to the Naspers and Prosus investor call. The presentation and discussion in this conference call are not for release, publication, or distribution, directly or indirectly, in or into the United States or any jurisdiction in which such release, publication, or distribution would be prohibited by applicable law. If you are an analyst based in the United States you must drop from this call now. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * then 0. Please note that this call is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead, sir.

Eoin Ryan
Thanks Claudia. Hello everyone, and welcome to the conference call today to discuss Prosus' exchange offer for 45.4% of Naspers shares. As per usual on the call with me today I have our CEO, Bob Van Dijk, and our CFO, Basil Sgourdos. Bob and Basil will walk through the rationale and specifics of the transaction, and then we'll open up the call for questions. With that I will turn the call over to Bob.

Bob Van Dijk
Thanks Eoin, and thanks everyone for joining the call today. Please know that this is a product of many months of hard work by the team, and hard work that I know will result in meaningful value creation for our shareholders both at the close of this transaction and in the future. As a group we have a strong legacy of investing in and growing our businesses at great rates of return, and we are committed to that path, and along the way we will continue to do all the smart things necessary to ensure the value of that portfolio is appropriately recognised. And this is what brings us here today.

Today we are announcing a critical step in unlocking value for our shareholders by solving Naspers' outsized weighting on the JSE, increasing the size of Prosus, and more than doubling Prosus' free float shareholders' economic interest in the company. This is a great step in creating value for our shareholders for a number of reasons. One, it immediately unlocks billions of Dollars of value and provides a stable structure optimised for future value creation. Second, it directly addresses what we believe is a key driver of Naspers' discount by almost halving its weighting on the JSE while still remaining South Africa's most valuable company on the JSE. Third, it further improves Prosus' investment profile, increasing its free float economic exposure to Prosus' NAV by more than 100%. Fourth, it maintains the benefits of the current structure and tax grouping status. Fifth, it preserves future operational, strategic and financial flexibility.

And finally, as a group we are committed to ensuring the success of this transaction by backing it up with support of up to $5 billion to repurchase Prosus shares. Let's begin on slide two which illustrates how today's announcement represents the next step in our value creation journey. This is a journey that has created meaningful value over time and one which I'm confident will continue to generate superior returns for our shareholders. Additionally, this transaction underlines the group's commitment to addressing the holding company discount and builds on other actions which we've taken over the past three years. Those actions include the unbundling of Multichoice Group, the listing of Prosus on the AEX, and the ongoing $5 billion share buyback programme. Importantly, while we have been taking action for our shareholders we have delivered on the most important drivers of long-term success. So we've seen our investments delivering over 20% IRR over a decade, which is an exceptional track record. Furthermore, we delivered accelerating revenue growth. The ex-Tencent part of our business is growing at more than 50% year on year in our latest results announcement. This is shaping our future.

To understand where we're going in terms of company structure it is best to start with where we've come from. Here the initial listing of Prosus in September 2019 has set the stage very much for today's announcement. And this you can see here on slide three. The group has a long history of generating significant returns for our shareholders. When I took over as group CEO in 2014, the Naspers SWIX weighting was well below 10%. However, by 2019, Naspers' size had grown to about 25% of the SWIX. And this has also become untenable, forcing many investors with single share limits to sell Naspers even as it meaningfully outperformed the JSE. This selling drove the widening of the discount and net asset value.

To begin addressing the problem, Naspers moved 26% of its market cap from the JSE to the AEX through the European listing of Prosus in September 2019. You can see from the slide on the right-hand side this listing was very successful. It reduced Naspers' size on the JSE and it unlocked $16 billion of value for shareholders. As you can see on the right-hand side of this slide, it's clear that had we not acted in September 2019 to separately list Prosus our weight on the SWIX would have been well above 30%. There is no way of telling how large our discount would have been had we not taken action, but it's clear that it would be materially larger than it is currently.

However, based on our consistent outperformance it was clear that we would need to take further action, as you can see on slide four. Just 18 months of Prosus' listing Naspers weight on the benchmark JSE SWIX index increased back to 23%, and that was driving a material widening of the discount and net asset value. This is the result of the significant outperformance of the [unclear] by consumer internet companies in 2020 during the pandemic in general and also our e-commerce portfolio's very strong performance in particular.

So now let's turn to slide five. In coming to the announcement today we have over the last 12 months assessed a range of potential actions, but each required careful and holistic analysis especially given the many regulatory, financial and tax considerations. Our ultimate goal was to achieve the following objectives. One, reduce Naspers' overweight position on the SWIX. Second, expand the size of Prosus on the Amsterdam Euronext and improve Prosus' liquidity, trading dynamics and international appeal. We also wanted to take an action which preserves future operational, strategic and financial flexibility and we wanted to create a long-term solution that delivers value for all shareholders.

With the proposed transaction we achieve all of the above and more. We are addressing Naspers' oversized weighted for the long term, we're doubling the Prosus free float's economic exposure to the company, and we're preserving all of the benefits we enjoy today from the current group structure and tax grouping status. We also stand behind this transaction by committing up to $5 billion to share repurchases at the Prosus level. Furthermore, I would like to make it clear that Naspers will not sell Prosus shares, so the cross holding agreement will also include an undertaking by Naspers that it will not sell Prosus shares for a period of 12 months after the implementation of the proposed transaction.

Importantly, what we are proposing creates immediate value for Naspers and Prosus shareholders at the time of the transaction, but even more so in the future as you can see on slide six. For Naspers shareholders the long term and immediate value creation is clear. Shareholders will get immediate value accretion from exchanging shares in Naspers into the lesser discounted Prosus shares, and that value will continue to compound at a lower discount over time as Prosus' value grows. Naspers shareholders will also benefit further from the NAV accretion at the Prosus level. Importantly, while we are resizing Naspers on the JSE for the long term, the company remains the largest company in South Africa by market capitalisation.

For Prosus shareholders the free float's effective ownership of the underlying assets increases to 59.7%, and buying Naspers shares at a higher discount will be NAV accretive because Prosus is effectively buying back high discount shares with lower discount shares. This transaction truly cements Prosus' capital markets profile as Europe's largest consumer internet company. It improves its liquidity further and significantly increases its index weightings which will lead to associated active and passive funding flows. So this brings us to the specifics of what we're proposing today, which I will now ask Basil to walk you through.

Basil Sgourdos

Thank you Bob, and thanks to everyone for joining us today. I'm very glad to be able to put some detail to the questions that many of you have been asking over the past year. The team have worked very hard on this transaction. We believe it creates significant value for shareholders immediately and into the future. The transaction addresses a number of structural issues and preserves our ability to continue to execute on our strategy. On slide seven you will see what we are proposing. The transaction addresses Naspers' outsized weight on the JSE and more than doubles Prosus' free float economic interest in the underlying net asset value, a great outcome for both sets of shareholders.

Before I get into the proposed solution it's important to note that there were many other ideas that we explored. We looked at every idea carefully and thoroughly. In doing this we invested considerable resources and time through the course of 2020. This was time well spent as we learnt a lot and developed a framework with the following set of priorities. First, any action has to comply with regulation. These are very complex. Second, we must take action aimed at not only addressing the discount but also ensuring that we are able to continue to execute on our strategy. Third, we must develop a solution that is in the interests of and has broad appeal across the Prosus and Naspers shareholders. And finally, we must choose and efficient and implementable approach with limited execution risk.

After careful and comprehensive evaluation of the options available to us, it is clear this transaction delivers on all these priorities. The mechanics of the transaction are outlined in detail on this slide. Here are the headlines. First, a core principle of this transaction is our desire to share the value created on the day of the transaction according to the Naspers and Prosus free floats ownership of the Prosus net asset value. It is from this principle that the exchange ratio is derived. As such Prosus will offer 2.27 newly issued Prosus shares in exchange for Naspers shares to acquire an additional 45.4% of Naspers issued ordinary shares. This when coupled with the recent open market purchases of Naspers shares by Prosus will bring the Prosus interest in Naspers up to 49.5%.

Following the exchange of shares the Prosus free float shareholders will own up to 42.8% of the Prosus ordinary shares, but because of the price holding [?] will own 59.7% of the underlying economics in the Prosus portfolio. That's a significant step up from the current 26.8%. The transaction is voluntary. Naspers shareholders can tender up to 100% of their holding, and if that happens we will have to scale people back.

On slide eight we dive more deeply into the mechanics of this transaction and we see that this transaction creates a long-term solution. Through the price holding and therefore Prosus 49.5% shareholding in Naspers, which owns 57.2% of Prosus, we created a longer term solution. We are balancing Naspers' size but also giving it much more room in which it can grow. You can see here on the right-hand side of the slide that in order for Naspers to return to 20% of the SWIX once again Prosus itself would have to add another $225 billion in value. That's more than doubling itself. I think we all agree that's a quality problem to have.

Turning now to slide nine, this transaction has the potential to create meaningful value over the long term as shareholders switch out of higher discount shares to lower discount shares. It will create meaningful value on the day of the transaction due to the spread of the two discounts. We have considered and debated and agreed that the most appropriate way to apportion that value creation on the day is to share this value according to the respective free floats' current ownership of the underlying net asset value. So Naspers shareholders will get 72.6% of that value and the Prosus free float will get 27.4% of that value creation. And effectively that's what yields the 2.27 exchange ratio.

On slide ten we will see that a critical fact in securing the necessary approvals needed to make this transaction possible was in maintaining Naspers' control of Prosus and not changing the group's tax status. We will achieve this by issuing newly-created B shares, and those shares are only capable of being held by Naspers and will have negligible economic rights. As a result, under the South African tax code Prosus will continue to be classified in a manner which preserves the critical tax grouping benefits. The cost of losing this status for Naspers shareholders would be very significant and detract meaningfully from value created by this move. In reality from a control perspective nothing really changes from today given that the current structure in place at Prosus. As part of the overall transaction approval, Prosus shareholders will be asked to support the B share structure.

This transaction will unlock value on the day. Slide 11 illustrates the significant additional upside that can be realised from further reduction in the discount over time. To remind you, every 5% improvement in the discount represents $13 billion in value creation. Now, we know there is no silver bullet, but we believe this transaction will help meaningfully. Additionally, we will continue to improve our operations, our disclosure, and our ESG scores while investing capital at strong rates of return to continue to build value over the long term. If we continue on this path we believe firmly that we will create meaningful value for our shareholders.

Before I turn the call back to Bob I want to highlight a very important component of this transaction on slide 12, which is the cross holding arrangement we have put in place between the two companies. The reason for doing this is to really eliminate any complexity that comes with the cross holding and to give shareholders real certainty as to how this will work. The details are set out on this slide, but in a nutshell the intent is to achieve three very important things both for the Prosus and for the Naspers shareholders. First, it clearly sets out the economic interest of the various shareholder groups in Naspers and Prosus. Second, it gives necessary certainty to both Prosus and Naspers shareholders that the economic interest will be given effect to. And third, to ensure efficient and effective ongoing interaction between Naspers and Prosus by avoiding the round tripping of cash and assets in the structure, thereby removing financial and administrative inefficiencies.

In order to achieve these objectives the cross holding arrangement allows for distributions to be made by Prosus on a terminal economic value basis. A terminal economic value distribution requires that both sets of free float shareholders receive their ultimate interest of any Prosus distribution. This means that Naspers will need to distribute automatically any distribution it receives from Prosus to its free float shareholders, and Prosus will need to waive in advance any entitlement to any onward distribution declared by Naspers. This is a key part of the transaction which codifies the respective free float interest in the underlying Prosus NAV and simplifies the cross holding structure. This will be done through a [unclear] agreement and importantly an amendment to the Prosus Articles of Association.

Finally, some housekeeping on slide 13, which sets out the high level key steps to implementation. Following this announcement today we plan on issuing the EGM notice and a Prosus prospectus. We then plan to host the Prosus EGM, open the offer immediately thereafter, and then look to close the transaction in the third quarter of 2021. So with that I will now turn the call back over to Bob.

Bob Van Dijk
Thanks Bas. Before wrapping up and getting to your questions I would like to take the opportunity to highlight our commitment to South Africa. In terms of our investments in consumer internet in South Africa we have never been more active than we are now. On slide 14 you will see South Africa is close to our hearts. It's Naspers' home and we've operated in South Africa for more than 100 years. We have many thousands of employees there, and we recognise our role and importance to South African investors who make up more than 40% of Naspers' shareholder base.

So in South Africa we remain committed to giving back to the community. We contributed R1.5 billion of aid to support the governments' response to the COVID-19 crisis. We've done community investments in the country through Naspers Labs, and more importantly, we've also committed to invest R1.4 billion to boost the South African technology sector through Naspers Foundry. We do this by providing funding, know-how and support to help South African entrepreneurs and businesses of tomorrow grow and prosper. With all of this we will continue to have a positive impact on the future of South Africa.

If I can take you to slide 15, South Africa will benefit significantly from this transaction. Post transaction Naspers will remain the largest listed company in South Africa, and through its inward listing Prosus is likely to be the second-largest company in South Africa, meaning that sizeable trading will remain in the complex on the JSE. The transaction is expected to attract additional international investor demand into Prosus and Naspers on the JSE over time. South African investors constitute approximately 44% of the Naspers shareholder register and will be the largest group to benefit from the proposed transaction. The Naspers and Prosus listings on the JSE provide South African investors with the ability to diversify their portfolios geographically and to gain access to the technology sector in some of the world's fastest-growing internet companies. And finally, the proposed transaction is expected to generate between R3.8 billion and R5.8 billion worth of tax revenues for SARS.

Finally, on slide 16 I also wanted to underline my and the board's commitment to further strengthening our sustainability framework. Our commitment is in line with the expectation of the shareholders. We understand that our role in society goes beyond just creating shareholder value. We have stepped up our game on our impact on the climate, our diversity and inclusiveness and our governance, and we've gone a long way here in a short amount of time. While there is more to do, we are making rapid progress. My vision is to have sustainability lie at the core of building out our businesses and also in our investments, which I believe can go hand in hand with value creation.

So to close on slide 17, I'm very excited to announce this transaction and to begin engaging with all of you on it. This proposed transaction has very clear benefits for all our shareholders because it significantly improves Prosus' liquidity and more than doubles its free float to 59.7%. So it unlocks substantial value at the time of the transaction and in the future and it establishes a stable structure for future value creation. It also directly addresses the key discount driver by reducing Naspers' size on the JSE while maintaining the company's status as South Africa's most valuable company. And finally, it maintains the current structure and tax grouping status. So with that I want to thank you for your time so far, and let's open up the lines for questions from here, operator.

Operator
Thank you, sir. If you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, ladies and gentlemen, if you would like to ask a question please press * then 1. We will pause to see if there are any questions. The first question comes from Will Packer from Exane BNP. Please go ahead.

Will Packer
Hi Bob. Hi Basil. Many thanks for taking my questions. Three from me please. Firstly, the release mentions there is a 12-month lock up. Could you talk a little bit about the future goal of developments in the structure? Is it you're pragmatic in looking for whatever the most efficient structure is for the discount while protecting your tax advantages, or is there some other further ambition? So that would be my first question. Secondly, since the last analyst call you've made the decision to trim your exposure to Tencent, which is a key appeal of the Prosus story. Could you share your thinking on what the right long-term size of your Tencent stake is, how you're thinking about that judgement as it's so critical to the Prosus equity story? And then finally, the Tencent trimming has provided you with some additional firepower. Clearly some will go towards share buybacks as announced today. Could you update us on how you see the M&A backdrop? Any particular sectors that you see as appealing? Those are my three questions. Thanks a lot.

Bob Van Dijk
Thanks for those questions. Let me answer the second and the third and then I'll ask Basil to go into the first question that you asked. The Tencent trimming did add to our firepower. What does the M&A pipeline look like? I think what we said at the time we did the trim is we actually have a very healthy pipeline of M&A opportunities out there. We see that we are focussed on a number of core areas where we've developed real expertise. And actually we have demonstrated we can deliver great IRRs. A good example is food delivery. Another good example is Edtech. We have invested capital there and we have delivered IRRs in excess of 30% or 40% over the period of those investments. And we think that track record allows us to identify further highly value creating opportunities in those main verticals. So you will likely see us pursue M&A in those core sectors where we have both the track record and developed expertise.

To your second question around the Tencent trim, I think it's good to take a quick step back and see how we look at our Tencent shareholding. We are a global internet operator and investor, and China is in our view not only the largest internet market in the world but actually also the most innovative and attractive. So our exposure through Tencent to China is one that we think is absolutely core to the proposition we have. And most importantly, the Tencent team has demonstrated to be an exceptionally qualified and well-considered leadership team that is really able to create value in that market.

So when we did the Tencent trim a number of weeks ago we were also clear in committing not to sell further Tencent shares for the next three years. That's because we believe fundamentally in China and we believe in the quality of the Tencent leadership team. In addition, we also benefit greatly from the long-term cooperation we've had. We've been in business for two decades together, and that's a very solid and mutually beneficial relationship. So we believe that the size we have now is the right size. We did sell some shares to be able to fund the expansion in our other verticals, but we are very firm believers of our future with Tencent. Basil, maybe you could address the first question.

Basil Sgourdos
Thanks. First of all, the 12 month lock up is really there just to give people certainly that there's absolutely no question of Naspers adding supply of Prosus stock into the market. So people can take their shares with great comfort and know they have stability. You will remember when we did the first move there was an accelerated book build that followed. And we just want to take that completely off the table. There is no such thing coming and it's not going to be there. So the 12 months has nothing to do with us thinking what the next step is here, and this is one step to something else. The reality is, as I presented in the presentation itself, this is a very sustainable long-term solution. It takes the Naspers size on the SWIX down from 23.4% down to 14%. And for us to get back to that 23% we now need to create another $225 billion worth of value. Bob and I and the team are up for the challenge, but we need a bit of time to do that.

So I think it's a very solid solution that gives us lots of runway going forward. Why is it the way it is? I think the key reasons are laid out in the presentation, but to repeat them, we wanted certainty from a regulatory perspective, and we certainly achieved that with this construct. Secondly, we wanted to do it in a way that created a meaningful reduction in Naspers' weight on the JSE. And we achieved that, 23% to 14%. And thirdly, we want to do it in a very efficient manner, and we achieve that too because not only is there no significant cash cost at a Naspers or a Prosus level, but more importantly we preserve the group's tax status going forward. That's not only important for us but it's also important for the regulators who approve things here.

Will Packer
Thanks for the colour. Much appreciated.

Operator
Thank you. The next question comes from Cesar Tiron from Bank of America. Please go ahead, Cesar.

Cesar Tiron
Hi everyone and thanks so much for taking my questions. I have four questions if that's okay. Sorry about that. The first one would be to further understand if this large transaction which you announced today we should see as an end game or more part of the journey which you started a few years ago to address the discount, and if you expect that this transaction alone would materially close the discount or if you think something else could be needed. Especially going down the road, do you think that you could further simplify the Naspers Prosus structure, for example this cross shareholding ownership? Could it disappear over time? That would be the first question.

The second one would be in SWIX and if you guys think that there is any risk that SWIX might see Prosus and Naspers as a single entity because of the cross holding. The third one is on taxes. Have you made any progress on the tax structure which would have allowed you to lower the Naspers stake in process to below 70%? And is that linked in any way to the creation of the unlisted B shares? And finally, I wanted to ask a little bit more on the exchange ratio and how you thought about it, because the economic ownership of Naspers shares in Prosus is about 2.75 shares of Prosus. But of course if you looked at the average and at the relative market cap this ratio over the past year was closer to 2. Just to understand how you guys thought about the exchange ratio. Thank you so much.

Bob Van Dijk
Thanks Cesar. That's quite a few questions. Let me start maybe by covering the question on the exchange ratio and then, Basil, can cover the rest between us. The exchange ratio was set as it was set to make sure we had an objective and a fair value creation split between the two sets of shareholders. So we looked at the last undisturbed price we had, which was yesterday, we calculated what the value creation is, and then the exchange ratio is set so that that value creation gets shared proportionately to the ownership of the free floats. And that we think is the only objective and fair thing that we get here. There are other numbers that you could consider, but I think this is an objective and a fair way to share that value. Basil, do you want to add anything to that?

Basil Sgourdos
No, Bob. I think that's well put.

Bob Van Dijk
So the tax structuring and what would happen if we go below 70% is I think in this case not so relevant. The most important criterion for us to get the approvals was to make sure that Naspers would stay in control of Prosus. And that's why we needed the B share construct, and that's why we put that in place the way we've put it in place. Basil, anything to add on that?

Basil Sgourdos
Indeed, Bob, that's the reason. But the by-product of it is that it also does solve this issue. Cesar, we don't need to do more work now. That is a by-product of this, so we're fortunate of that.

Bob Van Dijk
Bas, you can cover the point on SWIX.

Basil Sgourdos
Cesar, at the end of the day these are separate companies on separate exchanges, different profiles. We've had the conversation. Naspers has additional assets beyond Prosus. So the fact that the one owns shares in another, that happens all the time. Many companies own shares in each other. The index doesn't say, well, now they each own each other, so let's combine them as one weighting. I haven't seen that done anywhere in the world, so it would be quite an odd thing to now go and do here. There was a conversation around this some years back. I think the JSE have made the right decision and we expect that it continues as it is today.

Bob Van Dijk
I think on the first question, Cesar, I think Basil actually gave the answer to the first part of your question earlier. We see this as a stable construct, not a step towards further steps. And we actually in the presentation highlighted why we think this is a value-creating solution. And I think the point I made earlier is actually the most important one when it comes to the discount over the long term. We have invested in a number of assets that have displayed exceptional IRRs over time. We've seen our e-commerce portfolio accelerate to more than 50% year on year while actually we're improving profitability. We're continuing to improve transparency and we've made a number of value-enhancing moves and will continue to do that. So that is I think the right context in which you should see our efforts to create value for our shareholders. And we've taken a number of steps that you know about already. Then with this transaction we're creating a doubling of the size of the Prosus free float. We are reducing Naspers' weight on the JSE in a very meaningful way. And there is an immediate value

creation opportunity and expectations around a much stronger Prosus share that will attract significant flows. So we believe that combined will actually have a very positive effect over time.

Cesar Tiron
Thank you so much again, and sorry for asking many questions. Thank you.

Operator
Thank you. The next question comes from John Kim from UBS. Please go ahead, John.

John Kim
Hi everybody. Could we speak a little bit about the rebalance here? Can you give us a sense of timing and quantum for how DM indices will look at this pro rata? If you get full uptake and the structure looks like you would like it to, how should we think about the passive weights moving? Again, any sense of timing and quantum around that. Secondly, if you have partial uptake, how would you think about that? Is there a range or a critical mass that you need to generally achieve your goals? Is it more of a gradient or do you think of this more as all or nothing? Thank you.

Bob Van Dijk
Thanks John. I'll answer your second question and I'll ask Basil to answer your first. I think on partial uptake we actually are setting a threshold for the full offer. We strongly expect that we're going to get there. And that is fundamentally because we know this is a highly value creating transaction for Naspers shareholders. When we introduced the Prosus listing I think the acceptance at the Naspers level was in the 97% or 98% range because it created a lot of value. Here we see not only instant value creation that is very tangible but also longer term value creation and improved dynamics. So I'm actually convinced we will not get into that scenario of a partial uptake and we're setting the full transaction as a threshold.

Basil Sgourdos
Hi John. Good to talk to you again. Look, I think the key point here is that the Prosus free float doubles as a result of this transaction. It goes to over $100 billion. And the Prosus weighting on the EURO STOXX 50 goes from roughly the 50s given the volatility in the market to well within the top 20 companies. That's a meaningful step up driven by the need for increase in free float at the Prosus level. And that's going to supply a lot of passive money generally very early in the process. And more importantly, that then creates momentum and more shareholders will come into Prosus. So a year ago we had a certain percent of our shareholder base being European based. Today it's 37% and we see many new investors and funds coming on board. So the momentum should only improve with this move. And it's further amplified and solidified by the fact that Naspers has given this hard commitment for the next 12 months and we're adding a $5 billion buyback at the Prosus level.

John Kim
Okay. Helpful. Thank you.

Operator
Thank you. The next question comes from Jonathan Kennedy-Good from JP Morgan. Please go ahead, Jonathan.

Jonathan Kennedy-Good
Good afternoon. Thanks for the opportunity to ask questions. Perhaps I could just rephrase the question from earlier on, the potential Prosus increase in weighting on the SWIX. I wondered if you had a view on that as you

did for the Naspers down weighting percentage perhaps. And if you could, I'm not sure if it's possible to disclose what your estimates of the Prosus NAV would be on a current basis versus pro forma should the transaction be executed. And then finally just on the B shares, you mentioned the Prosus shareholders would have to approve the issuance of those shares. Will Naspers be able to vote its shareholding stake to do so?

Bob Van Dijk
Jonathan, thanks for those questions. So let me start with the last question. So there indeed will be a number of components of the transaction that Prosus shareholders will need to approve, and the B shares construct is one of them. The reason why we believe they will be supportive, there are two directions to it. One is the fact that there will be very meaningful value creation at the time of the transaction. But also for Prosus this is a massive step in terms of the size of the free float and the standing it has on the market. So there are very significant benefits for it. And in terms of what changes, well, frankly nothing changes. Currently Naspers sits at the voting level where it sits. And in the future it will then sit at the same level, which is essential for us to actually get the approvals that we need for this transaction. The reality is without ding that the transaction cannot work, so it's not something that is introduced for any other reason than to make the transaction a possibility. That's why we expect strong support. I do believe that Naspers will be able to vote its shares. But we expect really strong support from the Prosus free float for the reasons that I mentioned. Bas, maybe you can cover the first two questions.

Basil Sgourdos
Thanks. So indeed today Prosus' weighting on the SWIX is roughly about 1.6%. And what it will be after that really depends on the mix of the shareholders that max up the offer. So, today the South African shareholders own about 44% of Naspers. Assuming that the bulk of that came from there, the weighting would go up to roughly 7% or 8% at most, which is very manageable on any exchange. But I expect that number to be quite a bit below that because we're going to see foreign investors as well as South Africans tendering their shares. Then with regards to NAV on a current basis versus pro forma, actually this transaction doesn't change the underlying NAV of Prosus, right. The NAV that is there now is the NAV that will be there post the transaction. What is does do is it increases both the Prosus and Naspers shareholders' participation in that NAV because we take away high discount shares and replace it with lower discount shares. So both the Prosus and the Naspers shareholders, whether they tender or not, even if they don't tender and hold on to shares, will see an accretion because we're taking high discount shares and repaying them with low discount shares.

Jonathan Kennedy-Good
Thank you very much.

Operator
Thank you. The next question comes from Ken Rumph from Jefferies International. Please go ahead, Ken.

Ken Rumph
Hello gentlemen. I'll be the idiot on the call and ask the question about the B shares. If I'm a Naspers shareholder don't I end up owning these shares if I choose to tender my stock as opposed to Naspers owning them? I don't understand how this is not a new share class that trades. Thank you.

Bob Van Dijk

Ken, the short answer to your question is that these B shares are only created – we covered earlier why they are created. And these B shares will stay in the hands of Naspers, and in fact they will only have any rights associated with them as long as they're owned by Naspers.

Ken Rumph
Okay. So I get regular Prosus shares. Other voting but negative GB [?] de-valuable shares get owned so that's how you keep the voting stake. Okay, I get it I think. Thank you.

Operator
Thank you. The next question comes from Marcus Diebel from JP Morgan. Please go ahead, Marcus.

Marcus Diebel
Hi everyone. Just to follow up, how comfortable are you that Naspers shareholders will tender? Some investors highlight the argument they could have bought lower discount shares as of yesterday effectively. I understand the premium in the ratio, which is not much, and potential cavalcades considerations. But how comfortable are you that the majority of Naspers shareholders or a large part of the 45% you're aspiring is actually coming through? Thank you.

Bob Van Dijk
Marcus, I think I answered that question earlier on. I think there is a very strong benefit to Naspers shareholders, not just the immediate value creation but actually in the long term from right-sizing Naspers and also the traction of the Prosus shares because Prosus will increase so much in free float. So I think to not go into this I think would be very destructive for the vast majority of Naspers shareholders, and that's why I'm convinced they will do that. I think you can argue how big the premium is. I don't think it's actually the right way of thinking about it. You should think about it in terms of long-term value creation. And there I think people will realise this is in the best interests.

Marcus Diebel
Okay. Thank you.

Operator
Thank you. The next question comes from Jose Gago from City of London Investment Management. Please goa ahead, Jose.

Jose Gago
Good afternoon. I actually have a couple of questions. First of all, can you provide further detail on why you believe this is a superior transaction compared with some of the alternatives you've considered and possibly alternatives that would realise in the shorter term more value for Naspers shareholders, potentially an unbundling of Prosus shares? It seems from what you discussed in the call that regulatory approvals and tax considerations were key considerations for not being more ambitious with the transaction. So that would be my first question. The second question is around the complexity that this transaction creates. Are you concerned about investors failing to understand and that has a negative impact on [break in audio].

Bob Van Dijk
You broke up a little bit towards the end, Jose, but I got the question. Let me answer the question on complexity and I'll ask Bas to talk about the alternatives. Although I think actually, Basil, a lot of that you covered already in

the presentation, so maybe we can focus narrowly on the second part of the question to avoid repeating a lot of what's been covered. I actually don't think at all this increases complexity. The transaction builds on what we already have today. And the cross holding is really straightforward given the fact that Naspers and Prosus are essentially the same business and have the same board. The main thing is the see-through economics are crystal clear. A split 40/60 of Naspers/Prosus free float, and they will also be hard coded in the appropriate agreements. So we think our shareholders are really clever people and I think over time they have proven to be that time and time again. I think that will be really clear and we're comfortable with that.

Basil Sgourdos
If I could add, Bob, just two quick points. There would have been complexity had we don't nothing with the cross holding. But Bob's very clear. We have thought about that very well and we've removed it – it's that simple – by creating this cross holding agreement. So it's a non-event now. It's not an issue going forward and there is clear transparency and certainty. Your question was a very specific one around why we didn't unbundle Prosus to the shareholders. And the answer is very simple. It comes with a massive tax bill both in the Netherlands and in South Africa in the tens of billions of Dollars. So that's value destructive, and that's why we didn't do that.

Jose Gago
Okay. Thank you.

Operator
Jose, does that answer all of your questions?

Jose Gago
Yes. Thank you.

Operator
Thank you. The next question comes from Jean Pierre Verster from Protea Capital Management.

Jean Pierre Verster
Good afternoon, Basil and Bob. I'm a little bit concerned regarding your signalling that you see this as a sustainable solution rather than doing anything further after this. Specifically if you look at the ratio, it ignores that the Prosus free float only has one holding company to the underlying investments while the Naspers free float has got two companies to the underlying investments. And the ratio ignores that. Are you comfortable with this ratio because in my mind it prejudices the Naspers shareholders and benefits Prosus? Thank you.

Bob Van Dijk
Go for it, Basil.

Basil Sgourdos
Jean Pierre, on the second question, again the great thing about the cross holding agreement and the distribution structure is that you no longer have that issue because effectively any distribution that Prosus makes, whether it's cash, shares or anything, needs to flow efficiently and simply through to the Naspers shareholders and the Prosus shareholders at the same time. So there isn't this double layer. And that's what the cross holding agreement also solves for. Therefore that issue that you say there really isn't because of that fix. Secondly, I think we've clearly articulated why we've got to the ratio we've done. Bob has clearly explained how that is the fairest way to apportion value creation on the day. There is no much to add there.

And then on the first one, look, we've said it basically takes Naspers' weighting on the SWIX down from 23% to 14%. And to get it back up there we have to create $225 billion of value. So we'd like to do that first, that task on its own. The world changes. Things develop, Jean Pierre. That's what makes Naspers. We deal with the things that are there. So it is a real solution. It's one that will stay for us for a while. Now we've got to go create another $225 billion of value, and that's what we want to do.

Operator
Jean Pierre, does that answer all your questions?

Jean Pierre Verster
If I can briefly, the ratio once again ignores the discount that Naspers trades at to Prosus because it looks at the economic value. And at the same time by offering this ratio combined with saying that this is a sustainable solution, it leaves Naspers in a very difficult position of either accepting a ratio that could be seen as too low and locking in the discount of Naspers relative to Prosus, or if one doesn't want to give in that discount you are locked into a structure that management now has indicated.

Bob Van Dijk
I think there are a few points to be made around that. We could look at what the theoretical could be, but you could also look at what the market tells you over time. So if you look at the spot exchange ratio over time since we've done the Prosus listing it's closer to 2. And I'm not even talking about the structural solution that we're offering here. Just that actually is a much better deal than what the market has been telling you consistently since Prosus exists. That's a very important point to make here. And even if that is not enough, I think the transaction creates a construct that is so much more suited to the reality we live in, given that Prosus gets to be at a point where it is a massive free float stock, actually unique in its proposition to investors, and Naspers is at a size that is more appropriate for the JSE. Those are structural advantages apart from even what the market is telling you today is a really good transaction.

Basil Sgourdos
I would add to what Bob said, Jean Pierre. The Naspers shareholders get 76.2% of the value created on day one. That's the vast majority. Secondly, today the oversized positon creates this problem where South Africans have to sell the stock every time we create value. Removing that dynamic is a massive positive impact for Naspers shareholders. And this transaction delivers that, and that value accretes fully to the Naspers shareholders. So there are many more value-creating parts to this transaction than just the value on the day, which the vast majority goes to the Naspers shareholders.

Operator
Thank you. Ladies and gentlemen, just another reminder, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. The next question comes from Chris Wood from Prudential. Please go ahead, Chris.

Chris Wood
Thanks very much. I've got two questions. The first observation – and I'd like an opinion from management please – is management appears to have convinced themselves that the weight of Naspers on the JSE is the primary reason for the discount. And yet what we can observe is that since listing of Prosus, Prosus has opened up and traded at a wider discount to the same underlying portfolio of assets. Why do you therefore attribute

the discount at Naspers to that of its concentration on an index when that doesn't apply in the case of Prosus? And then the second question for Basil. Can we assume that Prosus will be seeking a waiver of a mandatory offer given that you will be going through 35% of Naspers? Thanks.

Basil Sgourdos
On the second question, Chris, we've looked at it closely and we don't have to make a mandatory offer. We've got that advice from our Dutch counsel and our banks and from the South African counsel, so there is no requirement for Prosus to make a mandatory offer. So that isn't a requirement and that's certain. It's very clear. Remember ultimately Naspers' control sits in the A shares and that doesn't change. There is no change of control at the Naspers level either. So there is no issue there, and the advice is clear and unequivocal. It's black and white.

On the first one, Chris, there is no doubting that you guys have to sell shares every time the Naspers share price goes up. It's an unnatural sale because it's in order to comply with prudential limits. So that has a significant impact on the Naspers discount. Today the Naspers discount is wider than the Prosus one. It's significant. And historically on average, as Bob mentioned, it has been much wider. I think there is a range between the two discounts and it trades within a particular range. I think some of that has to do with people anticipating what's next, what might it looks like, and there is some positioning around that and that causes things to trade in the short term. You need to take the longer-term view. The longer-term view is that the Prosus discount is meaningfully lower than the Naspers one.

And for us what we've got to do is continue to deliver excellent results. We delivered 55% e-commerce growth, 30% in aggregate in the first six months. We hope to be able to come out with the results in June and we'll share those with you. Secondly, we need to continue to allocate capital well. Our IRRs remain north of 20%. And thirdly, we need to continue to crystallise that value. And we've had many companies that weren't listed who are now listed, and there will be opportunities to do that going forward. And then to continue to do sensible things. I think at the end of the day there is a real issue here. You can't deny it. You can go plot it on the graph for yourself and you'll see that of course the Naspers discount historically has been much higher than the Prosus one.

Chris Wood
But Basil, Prosus trades at a discount for the same portfolio of assets. To me we hear management talk about how much value they've unlocked through the creation of this very unfortunate structure, but there is no evidence that the discount today has narrowed relative to where it was before the listing of Prosus.

Bob Van Dijk
Look, I think if you look historically, if you just graph how our weight on the JSE correlates to the discount, there is no chance in hell that it's not a major driver. You can have your own opinion on what the other drivers might be, but that's just crystal clear to all involved. You say unfortunate structure. Given where we are with weightings on the exchange, I think that's an absurd statement frankly. This construct actually sets both companies up for future success, and the correlation between the discount and concentration is obvious. So you have your opinion, but I think it's just plainly incorrect.

Operator
Thank you. We have passed the hour and have time for only one more question. The final question comes from Sean Johnstone from Goldman Sachs. Please go ahead, Sean.

Sean Johnstone
Hi guys. Thanks for taking the question, two questions really. One, how will the management incentives be structured post this completing? The second one is assuming the SA regulator would allow it, are you actually long term open to buying the remaining or more Naspers shares?

Bob Van Dijk
Thanks. I will address the first question and then Basil and I can talk about the second. The specific choices on how executive directors' long-term incentives will allocated will be made later in the year by the remuneration committee. But it is likely the long-term incentive will be materially rebalanced towards Prosus because of the increased size of the Prosus free float. So currently all the long-term incentives for executive directors are at the Naspers level. And that will be much less appropriate going forward. So a decision will be made later, but a material rebalancing is to be expected.

Basil Sgourdos
And then to your second question, the reality is that's not on the table. South African regulators are not going to agree to it. So I can't debate hypotheticals. That isn't an option right now, so I think there is very little value in debating something which is just not doable.

Bob Van Dijk
I think it is actually useful for me to cover the key points of the transaction one more time. One, it immediately unlocks billions of Dollars for shareholders and it creates a structure that will optimise for future value creation. And the unlock will come even if the discount stays where it is today, but we are convinced it will reduce. Second, it addresses a key driver Naspers' discount, its size on the JSE, and still Naspers remains South Africa's most valuable company. The third, it fundamentally improves Prosus' investment profile and it increases the free float ownership of the economic exposure more than 100% to 59%. And importantly it maintains all of the benefits of the current structure and group tax situation. That's a huge benefit. And five, we are confident and we will back it up with an up to $5 billion buyback at the Prosus level. So we feel good about it. I hope you do the same, and we look forward to talking more later. Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, that now concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT